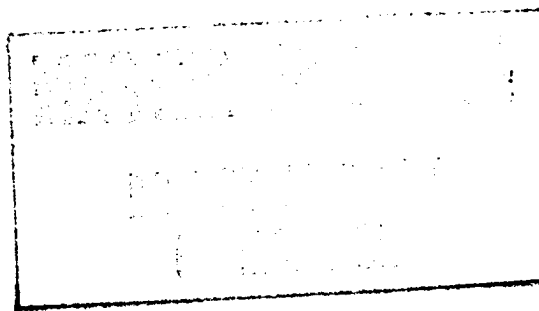




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Egypt: Political Implications of Corruption

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An Intelligence Assessment

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NESA 83-10160
July 1983

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Egypt: Political Implications of Corruption

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An Intelligence Assessment

This paper was prepared by [redacted] of the
Office of Near East-South Asia Analysis. It was
coordinated with the Directorate of Operations. [redacted]

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Comments and queries are welcome and may be
directed to the Chief, Arab-Israeli Division, NESAs,

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**Egypt:
Political Implications
of Corruption**

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Key Judgments

*Information available
as of 16 June 1983
was used in this report.*

Allegations of high-level corruption in government and business continue to bedevil Egyptian President Hosni Mubarak and detract from the credibility of his regime.

Although Mubarak appears personally honest, he is vulnerable on the corruption issue because of his position as Vice President during the Sadat period, when corruption flourished. To decrease his vulnerability, Mubarak has been waging a visible but selective anticorruption drive intended to dissociate himself from the negative aspects of the Sadat regime and divert public attention from continuing economic hardships. His campaign also appears designed to exert greater control over the bureaucracy and private business where independent centers of power are potential sources of embarrassment or resistance to regime policies.

The public has generally welcomed Mubarak's anticorruption efforts, but some Egyptians argue that they have not gone far enough. If Mubarak slackens his anticorruption campaign, he will expose himself to charges of a coverup and his popularity will dip further. If he were to broaden the campaign, however, Mubarak would risk alienating his supporters, implicating key officials of his government, and being charged with malfeasance and ineptitude for not purging these officials sooner.

Mubarak probably will not bow to the demands of Egypt's leftist opposition for the wholesale removal of allegedly corrupt senior officials. He is most likely to continue attempts to defuse the issue by pressing ahead with his limited anticorruption campaign and by issuing periodic warnings to his critics. If the aggressive muckraking of the country's opposition parties increases sharply or begins to have a serious impact on popular attitudes toward him, Mubarak may react by closing opposition presses or jailing their leaders. Such actions, however, would seriously discredit his regime at home and abroad and probably lead to more dangerous forms of opposition activity such as public protests or the organization of new underground groups.

The anticorruption campaign can have only short-term value as a diversion from social and economic problems. In the absence of real reform measures, moreover, a zealous crackdown on corruption risks damaging the safety valves in the Egyptian economic and political system that have helped maintain stability in recent decades.


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The corruption issue has generated some friction in the US-Egyptian relationship and could create additional problems in the future. Over the past year scandals have surfaced about irregularities in Egyptian implementation of US economic and military assistance programs. Charges that Egyptian officials and businessmen have profited illegally from US aid programs have embarrassed Egypt's leaders and made them sensitive to US investigations of these allegations.



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Egypt: Political Implications of Corruption

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Corruption is a potent political issue in Egypt that has undercut the legitimacy of two previous Egyptian governments. The widely held impression that corruption was extensive under King Faruk provided a major impetus and rationale for the military coup in 1952. Under President Sadat, the belief that corruption was rampant at all levels—and that those closest to Sadat were the most corrupt—was a contributing factor in his eventual assassination; the Islamic radicals who assassinated the President in October 1981 were critical of his ostentatious lifestyle and his alleged links to corruption.

The public perception that corruption is more widespread now than during the Nasir era apparently stems largely from Sadat's economic liberalization policies. His "open door" policies created a substantial domestic foreign business and aid presence that many Egyptians believe increased existing bureaucratic corruption. The greater political freedoms allowed by Sadat, moreover, permitted more Egyptians to become aware of and express themselves about corruption, foreign influence, and social and economic inequities. Derisive terms and phrases like the "Sadat Mafia," "open door fat cats," "rabbits" (millionaires), and "elephants" (multimillionaires) became common usage.

The social and economic changes generated by Sadat's policies challenged the concept of social equality advocated by Nasir.¹ Sadat's policies fostered a privileged upper class similar to that which existed prior to 1952 and created a new entrepreneurial group, both of which participated in unprecedented displays of conspicuous consumption. "Making it" became the primary preoccupation of a large number of Egyptians, causing others to fear that civil and social morality was being seriously eroded.

Mubarak's Anticorruption Campaign

President Mubarak's concern about corruption in Egyptian society appears genuine and consistent with his personal and professional beliefs. In the early months of his presidency, Mubarak spoke frequently of the need to instill discipline—behavioral accountability—in Egyptian society. The discipline theme was well received by most Egyptians following the Sadat assassination and the unsettling social and economic changes generated during the 1970s. In addition, the discipline drive helped Mubarak to establish a positive image as an honest and tough—but fair—leader.

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Mubarak's recent anticorruption campaign, a natural followup to his earlier discipline theme, appears to have several political motivations. In one sense it has become an effort by the President to dissociate himself from some of the negative elements of Sadat's policies without having to initiate radical and disruptive reforms. In addition to preempting some domestic criticism on this issue, the anticorruption campaign has provided the regime with a popular diversion from continuing economic problems.

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The anticorruption campaign also appears designed to exert greater control over the bureaucracy and the private-business sector where centers of power and patron-client relationships are potential sources of public embarrassment and resistance to regime policies. The trials of a small number of millionaire businessmen—and the public criticism of others implicated in the process—have taken on elements of a minor purge and appear to constitute a warning to other wealthy and powerful individuals.

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Baksheesh: A Context for Corruption in Egypt

The custom of paying baksheesh—a tip or a bribe—to a public official in Egypt has historical precedents. Prior to the 20th century, many Egyptian civil servants sold their services for a fee or took a percentage of revenues collected instead of receiving a salary from the government. Most modern-day Egyptians reluctantly accept the fact that baksheesh is required in order to do business with poorly paid public officials. Additionally, the offer of tips or gifts when doing business is traditional throughout the Middle East. A cultural predisposition, however, is not the sole cause of corruption in Egypt today. It is largely the outgrowth of the country's underdevelopment and existing economic, social welfare, and political systems. []

The emphasis on public ownership and central planning of the economy which started with President Nasir created government controls in the production and distribution of goods and services that encourage corrupt practices. The longstanding policy of controlled prices and subsidies for basic commodities helps create periodic shortages of some goods and a thriving black market. The government, moreover, controls the distribution of all building materials. It can take up to three years for delivery of building supplies if a contractor depends solely on legal practices, whereas a well-placed bribe can expedite the process. []

Sadat's "open door" economic policies quickened the pace of commercial activity and eased some trade and investment regulations. Foreign businessmen and investors, however, were dependent on middlemen with "influential" contacts to handle the numerous levels of bureaucratic red tape that still existed. For example, the cumbersome Egyptian customs apparatus is especially vulnerable to corruption. Businessmen are often willing to pay officials, directly or through a middleman, to expedite service rather than face expensive delays that can otherwise occur. []

The Egyptian Government has committed itself to a large array of public welfare services that are beyond its capacity to deliver, creating further opportunities

for corrupt practices. []

poorly paid civil servants rarely fail to levy a fee from citizens seeking benefits from social programs.

Egypt's free educational system is an example of how inadequate social welfare programs generate corrupt practices. Only students from families with reasonably good incomes can afford the private tutoring often necessary to pass examinations at the secondary and university level. Teachers often supplement their low incomes by tutoring on the side and selling course notes. Grossly overcrowded classes guarantee a demand for such services, especially at the university level. []

The centralized nature of the Egyptian political system also has encouraged corruption, according to observations by several scholars. One academic source notes that Presidents Nasir and Sadat both appeared to use planned corruption as a means of political control. Although neither appeared to be personally corrupt, both apparently condoned some forms of corruption in order to isolate elites from each other and from classes beneath them and to make these elites dependent on the country's leadership, often through the implicit threat of exposure. []

Nasir feared the free play of political and economic forces, and he contained them through a complex series of security, police, and intelligence networks overlain by bureaucratic procedures. Significant power was given to the police and security elements. To ensure that the chiefs of these organizations remained loyal, Nasir allowed them to exploit their power for personal, often lucrative, ends. []

Sadat, on the other hand, at least initially preferred to manipulate political and economic interests rather than suppress them. This approach was reflected in his economic and political liberalization policies beginning in the mid-1970s. By permitting corruption and allowing the development of freer markets, he won the loyalty of important elites and middle functionaries who became clients of the regime. []

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Indiscipline, neglect, favoritism, corruption, or even thievery are not important. What is important is that a man have character!



Al-Ahram, 10 February 1982 ©

Statistics are not yet available to document whether the Mubarak government has significantly increased the investigation and prosecution of cases of corruption—especially bribery and embezzlement involving officials—but it appears to be more active in this regard than was the Sadat regime. One Egyptian study based on official government statistics noted that between 1975 and 1980 recorded cases of bribery and embezzlement had declined significantly from the levels of former years. According to the study, during 1960-65 there were about 2,700 reported cases, while between 1975 and 1980 they totaled about 1,000. The interpretation of the data offered in the study suggested that the decline in recorded cases of bureaucratic

corruption reflected reduced government control under Sadat and the abolition of a major oversight organization. The study further noted, however, that the monetary magnitude of crimes, prosecuted mainly at the lower end of the bureaucratic scale, had increased significantly.

Mubarak remained committed to an aggressive campaign against corruption, especially by public officials. there are three major organizations authorized to investigate

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President Mubarak addressing Egypt's parliament in early 1982. [redacted] Camera Press ©

corruption—the Central Audit Organization, the Tax Evasion Department, and the Administrative Control Organization. The Central Audit Organization, roughly comparable to the US General Accounting Office, investigates both the government and the private sector. The Tax Evasion Department, subordinate to the Ministries of Finance and Justice, is responsible for uncovering tax evasion by any Egyptian citizen. [redacted]

The Administrative Control Organization, abolished by Sadat in the late 1970s, was reestablished by Mubarak in 1982. It is an autonomous organization that has responsibility for monitoring the fiscal and administrative behavior of government officials and military officers. [redacted] there is a representative of the organization in every government department whose major purpose is to act as a deterrent to crime, but who also keeps records on employee activities. [redacted]

The recent highly publicized corruption trials in Egypt have been prosecuted under the authority of Sadat's so-called Law of Shame passed in 1980. The Law of Shame set up a system of state security courts (popularly known as Courts of Ethics) that are sanctioned in the constitution of 1971. These Ethics

Mubarak on the Topic of Corruption

All my life, even before I entered public service, I never hated anything as I hated those who extend their hands to take from the funds of others.

*Interview in Al-Musawwar
October 1981*

I shall fight exploitation even if it is practiced by a member of my family. . . . I will not protect him against the state . . . if he exploited or defrauded. We are a developing state and cannot tolerate the official body tampering with state funds.

*Interview in Kuwaiti newspaper,
Al-Siyasah
November 1982*

There is corruption everywhere in the world. We perhaps have six, seven, or ten cases of corruption compared with hundreds of cases in other parts of the world. . . . What is important is that we should not cover up or encourage corruption.

*Interview in Al-Sharq Al-Awsat
(London)
January 1983*

Courts try those who have allegedly committed political crimes—departures from the values of society—as opposed to those charged with criminal offenses. [redacted]

The Ethics Courts are not bound by traditional legal evidence and can prosecute cases more quickly than the criminal courts. They have the power to impose political ostracism, limited prison terms, and sequestration of property. The Ethics Courts appear to have a wide mandate to hear cases related to bribery, embezzlement, illegal political activity, and threats to national security. Any Egyptian citizen who has been tried in the Ethics Courts may still be subject to prosecution for the same offenses in criminal courts if he has violated existing laws. [redacted]

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If everyone refused to take a
bribe, wouldn't the gross na-
tional income decline?

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Al-Ahram, 18 February 1982 ©

Under Mubarak, the corruption cases tried in the Courts of Ethics have focused on millionaires who made their fortunes and committed their alleged transgressions during Sadat's rule. The accused millionaires allegedly committed offenses such as evading tax and customs regulations, importing inferior goods, violating government price controls, and dealing in the black market. The first two trials, those of Rashad Osman, a lumber dealer from Alexandria, and Esmat Sadat (Anwar Sadat's half brother) and his sons, resulted in one-year prison sentences and sequestration of their fortunes. Rashad Osman, who has completed his sentence, is attempting to regain some of his

wealth through the courts. The Sadats are now appealing the court's decision. A third millionaire, Tawfiq Abd al-Hayy, fled the country and was tried for fraudulent activities in absentia. His assets and those of his family were sequestered for five years. According to the US Embassy in Cairo, a fourth millionaire, Kamal al-Kafrawi, is presently being held for trial on charges of extorting some "4 million [presumably Egyptian pounds] in rent payments."

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Esmat Sadat (right) with sons Tarek (behind bars) and Talast (left, laughing) await sentencing during their trial in early 1983. Wide World ©



Tawfiq Abd al-Hayy Egyptian Mail ©

A number of other prominent businessmen and former or current high-level government officials have been implicated during these corruption trials. Many have been publicly criticized by the Ethics Courts for poor judgment or for greater offenses. In the Esmat Sadat case, three current ministers and a former Prime Minister were implicated. Mubarak dismissed two of the three ministers, and criminal charges against one of them are still pending, according to press reports. The Ethics Courts also have charged the present Minister for International Investment and Cooperation Dr. Wagih Shindi with responsibility for an ill-advised loan to Tawfiq Abd al-Hayy while Shindi was chairman of the Arab Investment Bank. Minister of Economy and Foreign Trade Mustafa al-Said will probably be cited by the court for questionable activities stemming from his former close association with Kamal al-Kafrawi. Both Shindi and Said were Mubarak appointees in the cabinet shuffle of August 1982. 25X1
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In early May 1983 the Ethics Courts reviewed the first formal accusation about misuse of US Agency for International Development (AID) funds. Three high-level Ministry of Agriculture officials were accused of receiving bribes from an Egyptian-American contractor involved in setting up an AID fish farm project. Two of the officials were exonerated, but the court ruled that the contractor and a third official be

fined and serve three years in prison. This case confirmed the suspicions held by many Egyptians that US economic aid is being pocketed by their public officials. 25X1
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Domestic Reaction

Mubarak's anticorruption campaign has been widely popular among Egyptians, according to reporting from the US Embassy in Cairo. In part, it has provided a diversion from a bleak domestic period under Mubarak. More importantly, it has given Egyptians hope that Mubarak is attempting to restore the social equity and justice that many Egyptians believed were lost during the Sadat years. An informal survey of university students by the US Embassy in Cairo revealed that Mubarak's anticorruption campaign has been effective in mobilizing greater support for the regime. 25X1

Nevertheless, many Egyptians remain skeptical about the depth of Mubarak's commitment to reduce corruption. Students who were interviewed in the US Embassy survey believed that the Rashad Osman and Esmat Sadat cases were only the tip of the iceberg. Few were confident that the Mubarak government would carry its prosecutions much further. A young 25X1

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Dr. Wagih Shindi [redacted]



Mustafa al-Said [redacted]

Egyptian Mail ©

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teacher in a small delta town was reported to have complained cynically, "How can there be a serious government-inspired campaign against corruption? To do so, the government would have to indict itself!"

mafia who continue to hold key posts in the cabinet, the National Democratic Party (NDP), and the People's Assembly. They further believe that Mubarak's campaign has so far only skimmed the surface, and they have aggressively published muckraking articles in party newspapers both to spur the government to undertake additional prosecutions and to discredit the ruling elite. [redacted]

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Mubarak's Vulnerabilities

President Mubarak's honesty—an apparent outgrowth of both pragmatic and moral convictions—appears to be genuine. Although he may be immune from direct charges of corruption, Mubarak is potentially vulnerable because of his position as Vice President during the Sadat period. He may already be in a no-win situation over corruption. If Mubarak slackens his anticorruption campaign, he could be subjected to allegations of a coverup by opposition elements who have frequently leveled charges of corruption against members of Sadat's inner circle. If Mubarak were to widen the scope of his campaign, however, he would risk implicating key members of his cabinet and the NDP and thus face charges of malfeasance and ineptitude by regime critics as well as risk alienating his own supporters. [redacted]

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[redacted] members of the legal leftist opposition, including numerous intellectuals and professionals, believe that corruption in government is as prevalent today as it was in Sadat's time. They criticize Mubarak for maintaining close ties with corrupt members of the so-called Sadat

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Jehan Sadat

Sygma ©



Osman Ahmed Osman

Camera Press ©

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Mubarak so far has avoided prosecuting several members of President Sadat's inner circle who have been the subject of government investigation or scrutiny by the opposition press. Sadat's widow Jehan has been the target of several corruption allegations involving investment schemes and charitable organizations. Osman Ahmed Osman, a contracting tycoon related to Sadat by marriage, has been the focus of an intense campaign by the leftist opposition for a number of allegedly illegal business deals. One major charge against Osman is that he illegally took possession of state land worth over \$10 million. Another of Sadat's in-laws and former speaker of the parliament, Sayed Marei, allegedly evaded paying \$1 million in taxes over the past several years. [REDACTED]

Numerous rumors and allegations of corruption among Sadat-era politicians who remain in office under Mubarak have included Prime Minister and NDP Secretary General Fuad Muhi al-Din, and parliamentary speaker Sufi Abu Talib. Potentially the most serious scandal, however, involves both the Minister of Defense Muhammad Abd al-Halim Abu Ghazala and Minister of Foreign Affairs Kamal Hasan Ali. Some US journalists have alleged that while in their former positions under Sadat—Abu Ghazala was Defense Attache in Washington and Ali was Minister of Defense—they pocketed illegal profits made by the Egyptian-American Transport and

Services Corporation (EATSCO), which had received the Egyptian Government contract to ship US arms to Egypt. Under pressure of publicity in the US media, Mubarak ordered an Egyptian investigation of these charges that by late 1982 had found the officials innocent of wrongdoing. [REDACTED]

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The EATSCO affair touched on several sensitive issues that may still cause serious embarrassment and negative political consequences for Mubarak and his government. In the broadest sense, we believe it deepened public suspicions that senior Egyptian military officials might have profited illegally from the US military assistance program. More specifically, we also believe the EATSCO affair probably is partly the cause of Mubarak's hesitancy about appointing Abu Ghazala as his Vice President. In addition, the EATSCO affair touched Mubarak more closely than any investigation so far since his brother-in-law, Munir Sabet, was rumored to be involved in corrupt practices as procurement officer at the Egyptian Embassy in Washington in the late 1970s. [REDACTED]

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Outlook and Conclusions

The continuing investigations of millionaires and the increased monitoring of the bureaucracy have to some extent reestablished the symbols of social equity and

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Sayed Marei

Franz Furst ©

Muhammad Abd al-Halim Abu
Ghazala

Camera Press ©

justice that were undermined in the 1970s. Mubarak also has dampened enthusiasm for the conspicuous consumption that discredited the Sadat regime. He appears to have reaffirmed values inculcated after 1952 that wealth would not be the major source of political power or political power a source of wealth. As a diversion from social and economic problems, however, the anticorruption campaign has only short-term value for Mubarak. [REDACTED]

It is unlikely that Mubarak will move to satisfy completely the demands of the leftist opposition for an even more aggressive anticorruption campaign. Nor is he likely to tolerate indefinitely its muckraking. He may find himself caught in the same sort of ugly confrontation with the opposition that damaged Sadat's presidential image. Mubarak's public attack on the opposition in a speech on 1 May could indicate that such a confrontation has already begun. Even more serious, however, is the possibility that Mubarak eventually could feel compelled to silence the opposition groups by closing their presses or jailing their leaders. Such actions would be compared to the widely criticized suppression of the opposition carried out by Sadat a month before his assassination. It probably would also generate more dangerous forms of opposition activity. We believe Mubarak is aware of these risks and is unlikely to resort to such extreme

measures without additional and more serious provocation by opposition elements. Over the near term, therefore, he probably will continue his modest anti-corruption efforts while attempting to dampen criticism on this issue by issuing periodic warnings to the opposition. [REDACTED]

In the final analysis, much of the corruption in Egypt is a direct outgrowth of the country's cultural, economic, and political heritage. A zealous crackdown risks damage to the safety valves that have helped maintain stability in recent decades, particularly if unaccompanied by real political and economic reforms. Both Nasir and Sadat condoned, and in some instances inspired, a certain level of bureaucratic corruption in order to reward and tie individuals and groups to the regime. At the lower levels of the bureaucracy, "baksheesh" can be cut down but not eliminated unless Mubarak is willing to clamp down hard while providing salary increases his government can ill afford. The Egyptian public generally has come to accept a modest level of bureaucratic bribery as a fact of life. Continued instances of large-scale corruption at high levels of government and business, however, would weaken Mubarak's credibility and strengthen his critics. [REDACTED]

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Kamal Hasan Ali

Liaison ©



Munir Sabet

The US Factor

The widely held Egyptian perception that bureaucratic corruption became excessive because of Sadat's economic liberalization policies and his turn to the West carries the inherent notion, however subtle, that the United States shares responsibility. [redacted]

[redacted] Islamic fundamentalists believe the United States is partly to blame for the increased consumerism that they argue has eroded traditional Islamic principles. Leftists have argued in public that the United States had a hand in corrupting local middlemen in order to benefit US corporations. Government investigation of profiteering and bribery cases connected to the US military and economic aid programs has served to reinforce public suspicions of bureaucratic corruption generated by the US presence. [redacted]

The corruption issue has already created some friction in the US-Egyptian relationship, and more is likely to occur in the future. Charges that Egyptian officials and businessmen have profited illegally from US aid programs have embarrassed Egypt's leaders and made them sensitive to US investigations of these allegations. [redacted] some Egyptian officials believe the EATSCO affair demonstrates that the US Government is pressing Mubarak to carry out an overzealous crackdown on corruption. Other Egyptians, however, apparently believe Washington does not want Mubarak to conduct a thorough anti-corruption campaign for fear it would frustrate US interests and embarrass US officials. Both perceptions detract from the US image in Egypt by suggesting US involvement in Egyptian domestic affairs. [redacted]

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